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TAGS: EPET ENRG ETRD PGOV GH
SUBJECT: GHANA OIL AND GAS PRIMER - UPSTREAM OVERVIEW

¶1. (U) SUMMARY: Ghana's offshore oil discovery was among the largest worldwide in 2007. As a result of the 2007 find, Ghana attracted increased interest from international oil players seeking offshore concessions. As the latest potential oil producer on Africa's western coast, the Government of Ghana commands increased strategic leverage in its petroleum agreement negotiations, and offers the regionally-unique context of political stability combined with above-average levels of democratically-accountable governance. This cable is intended as a guide to policymakers on the current situation of the upstream oil and gas sector in Ghana. END SUMMARY.

PRIOR PRODUCTION EXPERIENCE: MODEST SCALE & SHADY DEALS
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¶2. (U) Ghana has been a small-scale producer of oil (the Saltpond field) since 1978. A small Oklahoma firm, Agri-Petco, developed the Saltpond field which initially produced 4,800 barrels a day (from an estimated reserve of 5 million barrels of oil - all the gas from the site is flared.) By 1985, production had dwindled to 580 barrels a day and the well was abandoned.

¶3. (SBU) In 2000, the redevelopment of Saltpond was prioritized by the Ghana National Petroleum Corporation (GNPC). The firm chosen for the work was Lushann Eternit Energy Limited: a local subsidiary of a Houston company, owned principally by a Ghanaian-American, Quincy Sintim-Aboagye. An initial contract with GNPC for redevelopment and recapitalization of the facility allocated 60 percent ownership to Lushann, and 40 percent to GNPC: this was rechristened the Saltpond Offshore Producing Company Limited (SOPCL). Production at Saltpond resumed at the level of 500-700 barrels a day. In June 2004, the original agreement between Lushann and GNPC was updated to comply with newly promulgated national regulations on oil resources, including tariffs and royalties.

¶4. (SBU) The image of the Saltpond Offshore Producing Company Limited suffered from allegations of corruption. Lushann's head, Quincy Sintim-Aboagye was alleged to be inappropriately connected to Tsatsu Tsikata, the former Chief Executive of the GNPC. Tsikata had approved the Lushann deal and was accused by opposition politicians of selling the Saltpond assets below their market value. In 2003, a shipment of 73,900 barrels of crude oil from the Saltpond field disappeared under mysterious circumstances -- it was later alleged to be the shipping company's exercise of a lien for non-payment of shipping fees exceeding USD 1.9 million. In late 2006, an opposition Member of Parliament (Moses Asaga) questioned the government on accounting for the royalty payments received from Saltpond. Evidently, Saltpond's revenues had never been accounted for in the national budget, raising the possibility that the

revenues had been siphoned to private accounts. In a recent meeting with econoffs, Asaga repeated these implications of malfeasance surrounding the management of Saltpond field.

JUBILEE FIELD: LEADING GHANA'S BLACK GOLD RUSH

¶5. (U) Ghana's "Jubilee Field" encompasses two offshore blocks that generated 2007's commercially viable new discoveries. The first find was announced at West Cape Three Points in June of 2007 by Kosmos Energy, an American oil company. The second discovery was in August 2007, by Tullow Oil (UK) at Deepwater Tano. Geological analysis indicated that these adjacent discoveries were based on a common reservoir, which led to the decision to unitize the two finds and to create a combined, phased development plan.

¶6. (SBU) Estimates of the total volume of oil in the Jubilee field vary. The initial, conservative statements of proven recoverable resources indicated 170 million barrels, with upward estimates (at lower confidence levels) exceeding 1 billion barrels. By May, Tullow announced proven reserves at 500 million barrels, while suggesting unproven reserves could be as high as 1.8 billion barrels; these same estimates were cited by Anadarko in a November earnings call with investors. In a closed meeting with econoffs, technical staff from the Ghana National Petroleum Company stated at a 95 percent confidence level that recoverable reserves from Jubilee were in the vicinity of 800 million barrels.

UNITIZATION DISPUTE DELAYS PRODUCTION SCHEDULE

¶7. (U) Unitization is the industry standard practice for sharing ownership of a common oil reservoir that spans two license areas. In the case of the Jubilee Field, the following ownership shares were agreed to:

- For the West Cape Three Points Block, Kosmos and Anadarko both hold a 30.875 percent interest; Tullow has 22.896 percent; the E.O. Group has 3.5 percent; and Sabre Oil and Gas has 1.854 percent.
- In the Deepwater Tano license area, Tullow retains a controlling 49.95 percent share; Anadarko and Kosmos both have 18 percent shares; Sabre Oil and Gas has 4.05 percent.
- In both licenses areas, the Ghana National Petroleum Corporation (GNPC) has a carried 10 percent interest.

¶8. (U) The Jubilee partnership agreed that Tullow would be the Jubilee field operator. Anadarko was given responsibility for the development plan, and Kosmos for subsea work. The development plan for the deepwater reserves contemplates the use of a Floating Production, Storage and Offtake (FPSO) vessel connected to undersea well-head systems.

¶9. (SBU) By mid-August, a disagreement arose within the Jubilee partnership regarding the geographic scope of the first phase of development. One company asserted that one of its test wells was not necessarily connected to the main jubilee reservoir. The other partners disagreed: at stake was the applicable fiscal regime for that specific well site. The final resolution will likely be an agreement to not include that contentious test well within the first phase of development. Nonetheless, we anticipate the issue could be revisited based on subsequent test wells and geographic analysis.

¶10. (SBU) The original Jubilee project schedule envisioned the submission of the unitization agreement and development plan by September of 2008. This did not occur, due to the delay caused by negotiating the final unitization agreement. Second, the GNPC appeared to favor a fast-track approval process and took the position that the Minister of Energy had the legal authority to authorize the unitization agreement. The partnership consensus has been that the unitization agreement should be ratified by parliament, since parliament granted the original license concessions which are modified by the unitization agreement. COMMENT: The delay means that the unitization agreement and development plan will have to be approved by the next government, following December's elections. END COMMENT.

¶11. (SBU) Based on the delays in concluding the unitization agreement and development plan approved, GNPC confided to econoffs that the earliest possible production from Jubilee will be in the

final quarter of 2010, if there are no further delays. COMMENT: Post estimates that production will likely not occur prior to 2011. END COMMENT. Once Jubilee is fully online, an Embassy source within the partnership suggested a daily production rate in the range of 200,000 and 300,000 barrels. Gas production from the Jubilee field is estimated at a multiple of 1000 cubic feet of natural gas per barrel of extracted oil.

BEYOND JUBILEE: DEEP WATER FEEDING FRENZY

¶12. (SBU) At least three of the Jubilee partners have license areas outside the unitized Jubilee area: Tullow, and Kosmos, partnered with Anadarko. Anadarko has sought additional license areas (beyond its partnership with Kosmos) but has so far been unsuccessful [to be reported SEPTEL]. In Tullow's 'Tano Shallow' block a discovery was announced on November 20: Tullow estimates that its 'Tweneboa' field may have as much as 800 million barrels of oil resources. In this area, Tullow and Norway's Interoil both have a 31.5 percent interest, Al Thani Ghana, a Qatari firm has 22.5 percent, Sabre Oil and Gas has 4.5 percent, and GNPC has a 10 percent carried interest.

¶13. (U) In late 2007, the pan-African oil company Afren obtained the controlling share in the Keta Block from Oklahoma's Devon Energy. This past month, Afren sold a 20 percent share in Keta to Japan's Mitsui. Afren retains a 68 percent interest in Keta, with GNPC at 10 percent and Gulf Atlantic Energy with 2 percent. Afren estimates its current prospects at Keta at the level of 325 to 642 million barrels of oil.

¶14. (U) Swiss oil trading, transport and exploration firm Vitol was awarded the "Offshore Cape Three Points" block in March of 2006 and "Offshore Cape Three Points South" block in August, 2008, which is an extension to the south of the first block. During 2007 Vitol conducted seismic analysis of its block, and planned to begin drilling in late 2008. Hess reports that it has a 100 percent interest in Ghana's 'Deepwater Tano Cape Three Points' block, which it acquired in July 2006. However, we understand this to mean that Hess has no other private partners in the block, since the petroleum agreement was reported to include GNPC. Hess began drilling its initial wells in the fourth quarter of 2008. For the 'Deepwater Cape Three Points' block, Russia's Lukoil (56.66 percent owner) has partnered with Houston-based Vanco (operator) which holds a 28.34 percent interest in the petroleum agreement; GNPC has a 15 percent carried interest.

¶15. (SBU) Near the Saltpond field, GASOP Oil Limited was awarded a petroleum agreement in 2006. GASOP is a Nigerian firm, and is reported by commercial intelligence sources as a subsidiary of Nigeria's Omega Maritime and Energy Limited owned by the brother-in-law of Nigeria's Rivers State Governor, Peter Odili. No recent exploration or drilling activities by GASOP have been reported. Another Nigerian firm Oranto Petroleum International Limited and their Ghanaian partner, Stone Energy Ghana Limited, received a license for the "Offshore Saltpond Contract Area" block in July 2008.

¶16. (SBU) The latest entrant to Ghana's offshore exploration milieu is Norwegian billionaire Kjell Inge Roekke, whose construction and engineering conglomerate Aker ASA, which recently secured the "South Deepwater Tano" block. Aker, with an 85 percent stake will be field operator. The agreement includes a 5 percent carried interest for a private local firm, Chemu Power [to be reported SEPTEL], and a 10 percent interest for the GNPC. The company is reported to have a USD 30 million seismic testing plan that it will begin in early ¶2009.

GAS SECTOR: GRABBING AT VAPORS

¶17. (SBU) The Ministry of Energy has developed a draft plan for a gas collection pipeline and drying plant, at an estimated cost of approximately USD 1 billion. According to an industry contact who reviewed the plans, the Government's proposed gas collection system exceeds current requirements. For example, the plan is reported to have a double set of pipes: one set for collecting gas to an onshore facility for drying and downstream transport, and a separate

pipeline for sending gas back offshore for reinjection to wells. A more economized system would allow for direct re-injection of needed gas, and one pipeline delivering excess gas to the shore.

¶18. (SBU) The current lack of transparency regarding the Government's plans for gas collection and associated financial mechanisms concerns private sector actors. If the government-owned system collects all gas production, the firms will not be in a position to decide autonomously how much they need for re-injection (to maintain pressure within the oil reservoir). Separately, it is not evident what pricing mechanisms will apply to the gas produced -- which by law cannot be flared.

COMMENT

¶19. (SBU) Managed effectively, the oil and gas sector offers the possibility of catapulting Ghana to middle-income status over the next 20 years. A key concern remains ensuring that the process for awarding offshore concessions and negotiating petroleum agreements is done transparently, and in a manner that does not discriminate against U.S. firms. SEPTEL reporting will discuss downstream factors and political and regulatory vectors in the oil and gas sectors.

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